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PROBLEMS OF  
EUROPEAN AID AND  
 RECONSTRUCTION

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*An Address by*

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**I**N THE TWO YEARS since the end of the war, I have been in Europe about one and one-half years. In that time I have had an opportunity to see its conditions, and because of my various official positions, have had available unusual sources of information. From this experience I will summarize some of the problems, and in doing so hope to add something to your general understanding of them.

You only have to read the published information to understand that the general state of affairs is one of varying degrees of disorder or disaster. But, you will never understand its extent unless you have had an opportunity to see and study Europe at first hand.

Europe is suffering from complicated mixtures and intensities of physical, moral, economic, financial, and political illnesses. Some of these are inherent and some are the result of the war, but all of them have been exaggerated by the War and the conditions since the War. Nearly all the nations are poor in terms of raw materials, consumer goods, production equipment, and the resources to buy what is needed from other Countries. Also, they are suffering from various degrees of inflation.

The period since 1938 has been represented by the same multiplication of money means (or purchasing power) as we had in the United States arising from financing the War, but over a longer period of time. In some cases this has been added to by large charges for occupation costs. As a result, there have been tremendous increases in National debt, bank deposits, and currency circulation. Abroad, this inflationary potential was accompanied by physical damage, loss of foreign exchange assets, shortages of materials and manpower, curtailment of normal imports, and a low rate of production of goods of all kinds. There is a contrast to this in the United States where our production machine remained intact and our production capacity actually was increased.

Also, there are shortages of food, coal, consumer goods, transportation, and housing. For nearly ten years there has been inadequate new building, maintenance, and modernization of the industrial plant, which has become increasingly obsolete.

When we mix all these and add, to material losses, the human loss of life, injury, and disease; the displacement of millions from their homes and families; the dislocation of most normal processes and relationships; and political confusion, we come out with a sorry situation indeed.

The result is a relatively low standard of living for most people in which the necessities and small comforts of life are hard to get. They are either not available or are extremely high priced. Thus, the requirements of every day living have become the principal problem of the average individual and he is interested in little else.

It is unfortunate, but true, that two years after V-J Day the prospects of the world seem worse than at that time. Actually there have been improvements, but the expected, substantial, general improvement has

not taken place. Two years ago the people had only one way to look—to peace and forward to recovery. Now they can look back on two years of no real peace, not enough progress, and forward to an apparently equally discouraging future.

The fact is that the penalties of the War are becoming more and more apparent and the extreme and permanent nature of the dislocations only now are being fully recognized. The problems are much more difficult to solve and of much longer term than they have appeared from here, and all estimates of the rehabilitation job to be done have been far too low. Where we thought in terms of a few years it is now apparent that full recovery in Europe is more likely to be a matter of a decade or more.

In the United States, on the other hand, we have made a quick and remarkable reconversion to large scale peacetime production. I think we have made the mistake of assuming these European Nations could accomplish a change for the better in some degree similar to our own, but it is becoming clear now that this could not be done.

Nevertheless there is a real necessity for a successful recreation of a normal and healthy Europe. It will not be easy, because there are no simple problems or automatic answers. Everything is extremely complicated, economically, financially, and politically. Success will require a really great effort by the European peoples and their Governments, and cannot be accomplished without effort and sacrifice on our own part.

The need for assistance can be divided into two principal categories. One is the short-term problem of providing and financing critical requirements, mostly in food and fuel. This arises from Europe's inability to purchase what it requires. The other is the longer term problem of supplying and financing the materials and equipment necessary to a sound and progressive economic reconstruction. The immediate aid might be classified as the equity money, without which an effective reconstruction can not proceed, or later reconstruction loans have any probable success.

Our Government is attempting to develop a reasonable and effective answer to both problems. The general approach is commonly called The Marshall Plan. Actually it is not a plan, and it is not a formula. It is merely a statement of fundamental principles which should control our attempt to aid Europe.

In substance, it proposes that Europe go to work realistically defining its own problems and what it can and will do about them at home, and in the way of mutual aid, so as to get the most out of every resource available. The emphasis is changed from—How much do you need or how much do you want? to—What can you do to help yourself and contribute to each other? If there is a cooperation in meeting common needs, and a pooling of resources, the United States will consider giving cooperation to help meet otherwise unanswerable requirements. In this way we will

get away from indiscriminate, individual petitions for help and relief, and eliminate the uncoordinated aid on an emergency basis which we have so freely given in the last two years. This, you will agree, is a sound approach. It proposes the principle we use in the Community Fund here.

What Europe asks of us can not be merely a "shopping list," or a process of adding up and pooling wants and needs as they may happen to exist; nor can it be a process of figuring out just how much can be obtained from the United States, an unrealistic demand used as a basis for bargaining. Whatever Europe does ask of us has to be related to the fact that we can not be expected to continue aid indefinitely on the scale of the past two years, and that our resources are not unlimited, even if many Europeans tend to assume they are.

The American people must be able to look ahead and see an end to the demands on them for tremendous sums in money or goods. Europe's offer for the future must certainly be something more tangible than an indefinite continuation of grants from the United States. We can not be asked to face the prospect of a continuous foreign dole with no hope of release from it. For that reason there must be a soundly constructive, long-range plan back of any further substantial aid which definitely leads to a progressive reduction and final elimination of the drain on the wealth and resources of this Country.

What we may do for Europe and how we do it raises its own series of problems in this Country. We have to realize that we are not sending so much of our money abroad as we are sending our goods. The demand on us is for goods in terms of money. Most of the money is being spent here and the goods are going abroad, without offsetting imports. This is inflationary, whether in loans or gifts. It can affect our prices—our budget—our taxes—and may add to the shortages of certain critical items. It can create a dangerous illusion of prosperity in this country, against which we must continuously protect ourselves.

Production of goods has not yet balanced the continued inflationary expansion of monetary means. Price increases and wage increase demands feature the daily press. Our production costs and prices are dangerously high and our production efficiency is less than it used to be. We have unnecessary interruptions of production to modify, eliminate, or control. We have a large and burdensome Government debt to carry and pay. We have a tremendous Government budget to be cut back—and a burdensome tax rate to be reduced. We can not say we are entirely without any internal complications of our own.

Our first and most important problem, therefore, is to insure our own strength and stability. If we expect to aid a successful reconstruction abroad and if the rest of the world must depend upon our strength, then we must remain truly strong. The weaknesses of other nations can not be matched by any form of weakness here, and we can not acquire any of

their weaknesses. That would be an even greater tragedy than the one Europe is facing today.

It has been publicly suggested that if we should supply what Europe needs for relief and reconstruction purposes, it can only be made possible by Government allocation of critical items and perhaps reestablished rationing and other controls over production, distribution and prices. I, for one, do not believe that there can be any need in Europe great enough to be turned into a valid excuse for stepping backward into another regimentation of the American economy. We have just escaped from most of it. The Socialist minded planners may attempt to make this, and the inflationary price structure they have helped create, an excuse for trying to do it. But, if the American People will only look abroad and recognize the failures of the Socialist planners there, they will demand and cooperate with other methods for doing what needs to be done.

It is also claimed that large loans and credits should be made for the sole purpose of creating a high volume of exports and to stimulate our already strained production and employment and, among other things, it is said that continued prosperity depends on continuation of foreign aid in large amounts.

This encourages those in Europe who mistakenly believe the United States taxpayer should subsidize their immediate return to whatever pre-war standard of living they have enjoyed, or perhaps to our own standard. It also encourages the Communists to sell Europe on the idea that we are giving financial aid solely to avoid a disastrous depression and we must do it or American capitalism will fall apart.

I am confident that the American people can find ways and means of doing anything that should be done for Europe without accepting any such conclusions.

Insofar as our own acts have permitted Europe to look to us for unlimited and unquestioning assistance, we have contributed to dependence rather than to independence, and have created a belief we are obligated to continue it. It is reported that since the end of the war we have made gifts, loans, or commitments to Europe aggregating about Ten Billion Dollars. This large amount represents resources diverted from the work, production, and wealth of the people of the United States. It has not been fully appreciated, and sometimes seems only to have provided grounds for increasing criticism of us. It has not bought off the local Communists and has only stirred them to a greater opposition.

It has provided clear proof that European reconstruction depends on something more than United States dollars or goods, and that suggests some reference to the obstacles to a successful and progressive reconstruction, which exist in Europe. Some of the most serious are in the internal economic, financial, and political conditions of the foreign nations which seek our aid. As time has passed, these have become more



and more apparent. I believe it is only when certain of these are corrected that further large-scale help from the United States will be completely effective. Also, that we should approach what we may do with a realistic appraisal of these difficulties.

Continuing inflation, socialization, large budget unbalances, depreciating currencies, black markets, low production, exchange restrictions, and unrealistic currency exchange rates have all complicated the problem and each other. This is in the economic and financial field, and takes no account of existing political confusions and Communist obstructions, which do not simplify the situation.

Normal living, business, and Governmental processes have been disorganized. Nationalization programs, and their ever-growing bureaucracies, have placed a creeping paralysis on the effectiveness of industry. Capital, labor, and agriculture have lost their incentives. Innumerable obstacles to private investment, internal or international, have been created. The result is an inhibition of the energies of the people, in which dependence on American goods and credits has been extended by a large degree of confusion and inertia, both individual and national.

Under these conditions there is no easy way to make assistance effective. Also it is not easy to adjust or correct a condition, but somehow the problem has to be met.

In Europe, so far, there has been too much emphasis and interest in temporary solutions provided from the dollars, goods, or other resources of the people of the United States. In too many cases the aid we have given has served as a substitute for doing the obvious but unpleasant things necessary to solve some of the most pressing internal problems of European Nationals. Grants and loans have served as a refuge from reality. Since the end of the war, there has been a universal reluctance and delay in taking notice of plain warnings of the economic and financial difficulties to come, and a similar reluctance and tardiness in applying obvious and necessary internal remedies. Avoiding serious internal issues, and lack of effective leadership and action, has multiplied their seriousness.

For example, inflation is the backbone of most of Europe's troubles, and is its most durable problem. It has not been stopped. Europe is covered, like snow, with depreciating currencies. Needed currency and financial readjustments have not been made. Even where there have been currency devaluations and blocking of bank balances, the outstanding means of payment is usually much more than pre-war without a comparable production. Money is not being brought out of hiding. Goods are not being put behind rapidly mounting paper currency issues. Labor and the farmers have little available to buy with what they earn and too many of them are not yet assured much of anything but paper currency of doubtful value for their work and production.

Inflation affects prices, wages, production, and trade. Demands for wage increases to meet rising prices are not easily refused by a labor or

socialist Government. There is a lack of working incentive and much absenteeism. Not being able to purchase what is needed and wanted with money earned, contributes to worker indifference, a desire for pleasure and leisure, and an urge to gamble or engage in black market transactions. This makes it easy for the Communists to inspire and lead strikes, carefully selected and timed to further obstruct production continuity and progress.

Inflationary prices, unrealistic foreign exchange rates, and exchange restrictions inhibit foreign trade as a source of acquiring needed materials and goods from outside the Country. Internally inflated prices are multiplied by fantastic exchange rates, which add a large tax to the price which must be paid by foreign buyers and shut off foreign exports. At the same time these conditions encourage the purchase of imports from existing exchange resources.

Every one who can do so seems to be engaged in the business of avoiding or getting rid of local currency and hunting out and acquiring United States dollars, Swiss francs, or physical assets of more permanent value. There is a general effort to find substitutes for depreciating currencies and find some way to evade the exchange restrictions which make this difficult. This is symptomatic of inflation. One result is that no one knows the amount of usable foreign exchange assets hidden in these countries which should be available to their respective Governments.

Reestablishing sound currency values and recreating confidence in money to the point where people are willing to accept and hold it for their work and their goods is one of the fundamental problems of Europe. It is essential to any effective implementation of the Marshall Plan. Lack of it, plus ineffective rationing and shortages, contributes to a multiplication of black market transactions. In a black market economy, the inequities of every day living are emphasized, worker unrest is stimulated and there is a growing disrespect for law and order.

Obviously it is impossible for outside financial assistance alone to resolve this problem. It requires drastic internal adjustments by Governments, supported by the cooperation of the people. Our exported dollars or goods can not be effective in the hands of Governments with steadily depreciating currencies or Governments which continue unsound financial and economic policies. Trade can not flourish in the face of pending, threatened, or possible currency devaluations.

Added to inflation are the basic living problems of the workers in terms of food, coal, and housing. Their importance lies in the fact that any answer to them means a form of luxury to the common man. To him a relatively high standard of living today consists mostly of an assurance of peace, a roof over his head, three meals a day, and warmth in the winter time.

Their lack does not contribute to an increasing production. Shortages of food and coal chase each other around in a vicious circle. Lack of

food affects the production of coal; lack of coal directly affects other production, power, and transportation.

The details of the food situation have been well advertised. Too many individuals abroad are having to live, work, and fight off disease on a food ration of one-third to one-half of ours. Under the circumstances it is not strange that they tend to work only long enough to acquire the money to buy their ration allowances and take time off to explore the countryside for black market purchases.

There is a shortage of manpower and actual statistical over-employment. Part of this is due to war manpower losses, but a greater part of it is caused by long, continued obsolescence of production facilities and a general lack of worker interest and efficiency. The large expansion in Government bureaucracies, representing persons not engaged in productive work, further strangles production increase.

Everybody knows that Europe is suffering from a pernicious and progressive dollar anemia. This has not been relieved by large and repeated transfusions of American goods and money. Its origin lies in the large expenditures and losses of foreign exchange assets in two wars, and the failure to stimulate production for export in sufficient quantity to answer import needs. At the present time it is a compound of shortages in raw materials and production on one hand, and the fact that the United States is the only Nation which can supply what is needed in quantity. The principal buyers of whatever goods are exported are what is called—soft-money Countries. That is, Countries whose money is not easily exchangeable into dollars. The principal seller is the United States—a hard-money Country.

It does the European Nations little good to sell to or trade with one another. The supply of available imports is not enough and the proceeds of exports can not be converted into United States funds usable to buy the requirements in food, coal, steel, and machinery from the only major source available. This is the reason for curtailment of imports from the United States and the frantic efforts to increase exports by restricting home consumption, still further lowering the standards of home living. What is happening in Great Britain, of course, is an extreme example of all the fundamentals of the problem.

All through these problems runs the thread of political confusion. Most European Governments are multiple party coalitions. No single party has sufficient popular support to provide an effective leadership. The Communist elements, either in or out of a Government, do their best to obstruct or destroy any leadership that may exist.

Nationalization programs, and Government controls inhibit investment and destroy incentive at every level.

In Europe Socialism is politically dominant. The issue is between some form of democratic Socialism and a final totalitarianism—or police

State. One of the serious problems is in the extent to which Government ownership has replaced private enterprise, if any degree of the former can be balanced with the latter, and whether any degree of free, private enterprise can survive under these conditions.

All over Europe there has been nationalization of important industries and in some cases relatively small industries. Generally the level of efficiency and the total production is low. Many large nationalized industries operate at a deficit. With this, goes an expansion of Government controls over raw materials, imports and exports, and even manpower. Recently in Great Britain a law has been passed limiting the right of the individual to choose his own employment or the employer to hire from a free market. What is happening there, and similar things which have happened elsewhere, has led me to say that one of the outstanding characteristics of Europe is the rapidity with which the people are running out of freedom.

Europe is tending to become divided into two new classes of individuals. Those who sit on commissions to make plans and regulate the affairs of other people, and those unable or unwilling to do useful things because of the plans, regulations and uncertainty.

There is ample evidence of the ineffectiveness of Government planners. One example will suffice. Foreign exchange shortages and the coal shortages have been apparent to any reader of statistics long before they became a crisis. Actions taken to meet the problem when it became a crisis could have been taken months in advance to alleviate it, but were not. I doubt if this is any recommendation for the benefits of Government planning.

Strangely enough everything these socialist Governments want to do costs money. There are the tremendous acquisition costs of industries to be nationalized. There are the large costs of industrial modernization programs. There are the concessions to labor which voted the socialist Governments into power. There are the enlarged and extended social security programs. And, finally, there is the cost of the ever growing administering bureaucracy. All of these add to Government expenditures and deficits or debt and can only be satisfied by an increased production per man hour, which is not forthcoming.

I think we would do well to notice and to remember, that it is one thing to experiment with socialism in a financially sound, surplus economy, and an entirely different thing to do it in a semi-bankrupt economy, having large deficits in imports and Government budgets. Under present conditions the principal socialist contribution has been to financial instability. That should be a lesson to the people of the United States.

Socialism has no record of production accomplishment or of production efficiency. This is inherent in its nature. High living standards and high production efficiency have only appeared in relatively free enter-

prise economies. Under socialism, competition is either eliminated or minimized. Monopolies organized and operated by State bureaucracies prevail. There are no evils of private monopolies that are not made worse by public monopolies. Their characteristics are restriction of production, loss of incentive, less work, special privilege, and preservation of the status quo. The result is everywhere apparent in failure to produce.

No consideration of the European problem would be complete without reference to Germany. Before the war the four principal exporting Nations were the United States, United Kingdom, Germany, and Japan. Only two of these are left, and one of the two is at least temporarily and relatively ineffective. Germany's coal, steel, chemicals, heavy machinery, and machine tools, contributed substantially to the European industrial process. Today Germany not only does not export but its very existence is a drag on other economies, principally ours. It has taken us two years to wake up to the fact that Europe can not function normally without a producing Germany.

There is no question that beyond a reasonable subsistence level German reconstruction should be subordinated to the needs of Europe and definitely held within the bounds of safety. However, it needs no explanation to emphasize what it would mean to Europe as a whole and to Germany, for example, to add 60 million tons a year to the Ruhr coal production.

There is certainly less to fear and something to gain from a producing Germany, properly controlled, than from a hopeless, prostrate, non-producing, dependent economy, an easy prey for any radical anarchistic doctrine, as a solution to its problems. Economic solutions have always greatly assisted political solutions.

The fact that these complications exist neither makes the job of rescuing Western Europe impossible nor relieves us from the need of doing something about it. There are strong reasons for using additional resources of the United States in aiding Europe. If the cost is high, we can not overlook the cost of failing to do it. The question is: What we can afford to pay for peace, a sound economic progress abroad, and orderly and expanding world trade, provided we can get it. The substantial problems and obstacles to be faced at home and abroad should only serve to continue and stimulate our efforts to find a sound and effective solution.

Whether we want it or not, history appears to have delegated world leadership to us. We are the greatest power in the world today and can be its stabilizing factor. We can accept this responsibility, or forfeit it to some other Nation. If we should do the latter, undoubtedly we will forfeit to the world's most aggressive and unstabilizing factor—Soviet Russia.

When you think of this possibility, remember that west of the line the Soviets drew so clearly at the Paris Conference, Europe has a popu-

lation of over two hundred million people. They are oriented to the west, and not to the east. The industrial production and the experienced production manpower of the Continent is in this area. It does not lie to the East. If this combination of manpower and production should become a contributor to Soviet Russia, there is the possibility of a center of power being created which easily could become a menace to our future security as a nation.

World peace, and what is left of democracy and free enterprise in Europe, needs the active and aggressive support of the United States. We can not have a real peace while the European people are afraid that militant and unscrupulous Communist minorities will force themselves on majorities, which have given every evidence of a wish to be free and democratic. Existing freedoms of the individual and of enterprise need a strengthening and supporting hand, if they are to have a continued and renewed life. And, we can not have a continuing prosperity in this Country with a large part of the rest of the world flat on its back, economically and financially.

There is no doubt that a constructive and unselfish world leadership is greatly needed. If we take this part, we need make no excuses for what we do. We know we have no desire to acquire selfishly or to dominate any other nation, and we know that already we have given more of our blood and wealth to the world for no return than any or all other nations. These are forceful reasons why—if American economic power is used for purposes of justice, freedom, and constructive assistance to others—and to oppose the economic and political slavery of totalitarian and police States—it will benefit the world situation.

In whatever the Congress may consider doing it would be well to remember several things. The fact that what we do abroad can complicate our own internal situation becomes a factor in considering the amount of our aid and how it is to be directed and controlled. For this reason, our part in European aid and reconstruction must first take into account our fundamental obligations to the people of the United States and, while doing that, find ways and means to provide the much needed assistance for Europe.

Also we would do well to remember that one of the requirements of sound help to another, whether an individual, a business, or a nation, is to make certain that everything the petitioner or the beneficiary can and should do to meet his own problems and put his own house in order, is actually and promptly done.

And above everything else we must find some way to give more of our strength directly to the free, private enterprise of Europe and less of it to the control of those whose principal accomplishments so far have been to help smother it. We must find better and more direct ways to support the forces of democracy and those determined to protect the freedoms of the individual.

It is my belief that our own strength can be protected only by a stronger approach to these conditions and problems than we have been disposed to take in the past. We can best assist reconstruction by insisting on a realistic appraisal of facts and circumstances, and some economic and financial, but not necessarily political, remedies. We should have an accurate appraisal of the facts with respect to every situation, and we should get all the facts. We should require the effective use of the resources of these foreign nations and the correction of fundamentally unsound financial and economic policies. With our dollars and goods we must export sound policies and give strength to those Governments willing and determined to do what should be done to make our aid bring about a successful reconstruction. I am sure satisfactory results can be accomplished if what we do is specific and limited, represents sound and constructive policy, is strongly controlled, and ably administered.

I do not see how we gain any respect by a failure to be firm and business-like about the use of the wealth and assets of our people by other nations. No matter what we do we are charged with bad motives by our opponents and are criticised even by those who benefit most. Purchased good will is always temporary. We should worry less about that and more about getting permanent results.

No matter where you look abroad, you see nations which want the food, goods, and credit of this country. This assistance has to come from its only possible source—the democratic free enterprise system of these United States—from the production, wealth, and resources of the free people of the United States. Freedom and production may be failing everywhere else in the world, but are not failing here. The reason is, the American way of life, which we must not only protect and improve, but continue to develop as an instrument of world progress and stability.

